

**PATON-CHURDAN
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

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PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2011 Election)

Steve Burrell	President	2011
Greg Carey	Vice President	2013
Troy Paup		2011
David Dumdei		2013
Brad Wilson		2013

(After September 2011 Election)

Steve Burrell	President	2015
Greg Carey	Vice President	2013
Troy Paup		2015
David Dumdei		2013
Brad Wilson		2013

School Officials

Leonard Griffith	Superintendent
Jina Brincks	District Secretary/ Treasurer

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Financial Statement Preparation
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report

To the Board of Education of
Paton-Churdan Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Paton-Churdan Community School District, Churdan, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Paton-Churdan Community School District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2013 on our consideration of Paton-Churdan Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

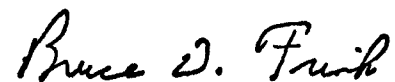
U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and

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comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Paton-Churdan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplementary information included in Schedules 1 through 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. general accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Bruce D. Frink". The signature is written in a cursive, flowing style.

BRUCE D. FRINK
Certified Public Accountant

March 13, 2013

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Paton-Churdan Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,158,217 in fiscal year 2011 to \$2,293,110 in fiscal year 2012, while General Fund expenditures increased from \$2,121,490 in fiscal year 2011 to \$2,266,469 in fiscal year 2012.
- General Fund revenues increased 6% during the year ending June 30, 2012 showing increases in local taxes and tuition revenues. The increase in expenditures was due primarily to normal annual payroll increases. Current allowable growth levels are inadequate for continued growth in the General Fund.
- The District collected over \$109,000 in statewide sales, services and use tax revenues. This was used for repayment of revenue bonds and equipment.
- The General Fund increased over \$26,000 partially because of an increase in revenues as tuition revenues increased by over \$75,000. Cost containment measures will be ongoing as inadequate allowable growth prevents even modest increases in expenses.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Paton-Churdan Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Paton-Churdan Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Paton-Churdan Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the Student Activity Fund as well as a multiyear comparison of revenues and expenditures.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Paton-Churdan Community School District Annual Financial Report

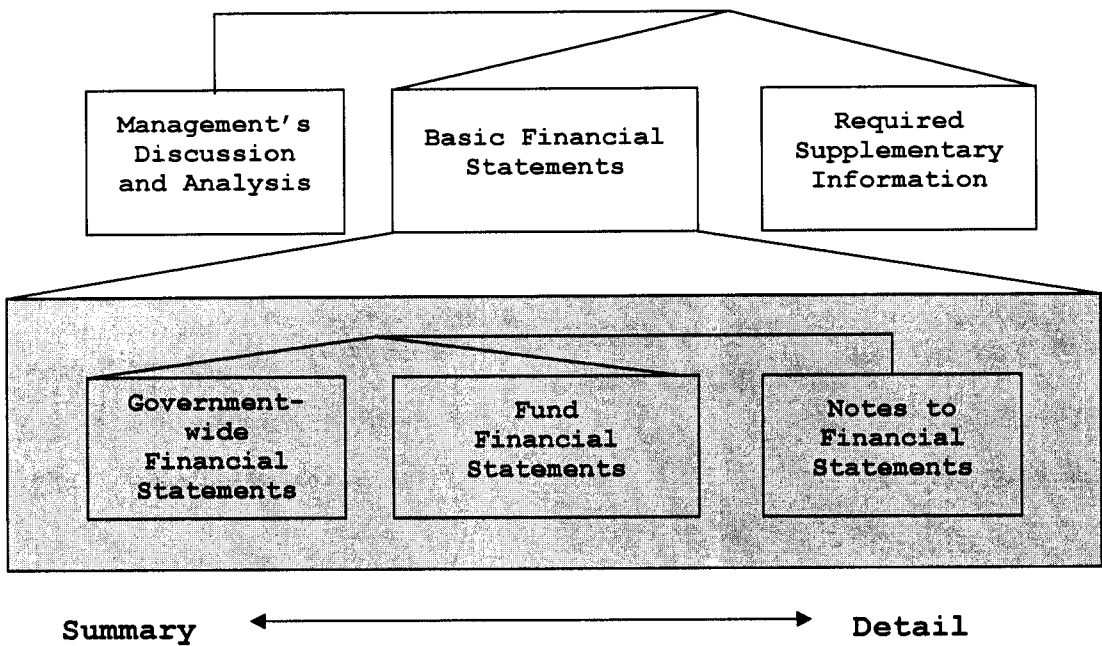


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activity the District operates similar to private businesses: food services
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in fund net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long- term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" funds for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-2012
Current assets	\$ 2,075	2,126	14	21	2,089	2,147	-2.70%
Capital assets	1,581	1,560	8	4	1,589	1,564	1.60%
Total assets	<u>3,656</u>	<u>3,686</u>	<u>22</u>	<u>25</u>	<u>3,678</u>	<u>3,711</u>	<u>-0.89%</u>
Current liabilities	1,256	1,222	-	-	1,256	1,222	2.78%
Non-current liabilities	867	905	-	-	867	905	-4.20%
Total liabilities	<u>2,123</u>	<u>2,127</u>	<u>-</u>	<u>-</u>	<u>2,123</u>	<u>2,127</u>	<u>-0.19%</u>
Net Assets							
Invested in capital assets, net of related debt	771	665	4	4	775	669	15.84%
Restricted	129	211	-	-	129	211	-38.86%
Unrestricted	633	683	18	21	651	704	-7.53%
Total net assets	<u>\$ 1,533</u>	<u>1,559</u>	<u>22</u>	<u>25</u>	<u>1,555</u>	<u>1,584</u>	<u>-1.83%</u>

Total net assets decreased by 2% in fiscal year 2012. The primary factor was a decrease in the Capital Projects, Sales Tax and Management Funds. The Management Fund decreased as the District lowered its levy dramatically to reflect a desire to keep property taxes down as best as possible. The District is using statewide sales, services and use taxes to ease the property tax burden of the PPEL levy as well as for infrastructure projects and debt retirement.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4								
Changes in Net Assets								
(Expressed in Thousands)								
Governmental Activities			Business Type Activities		Total District		Total Change	
2012	2011		2012	2011	2012	2011	2011-2012	
Revenues:								
Program revenues:								
Charges for service and sales	\$ 257	181	25	28	282	209	34.93%	
Operating grants, contributions and restricted interest	358	412	50	40	408	452	-9.73%	
General revenues:								
Property tax	1,059	1,019	-	-	1,059	1,019	3.93%	
Income surtax	50	115	-	-	50	115	-56.52%	
Statewide sales, services and use tax	109	132	-	-	109	132	-17.42%	
Unrestricted state grants	622	663	-	-	622	663	-6.18%	
Unrestricted investment earnings	4	5	-	-	4	5	-20.00%	
Other	69	39	-	-	69	39	76.92%	
Total revenues	2,528	2,566	75	68	2,603	2,634	-1.18%	
Program expenses:								
Governmental activities:								
Instruction	1,682	1,582	-	-	1,682	1,582	6.32%	
Support Services	684	600	-	-	684	600	14.00%	
Non-instructional programs	-	-	79	73	79	73	8.22%	
Other expenses	187	186	-	-	187	186	0.54%	
Total expenses	2,553	2,368	79	73	2,632	2,441	7.82%	
Change in net assets	\$ (25)	198	(4)	(5)	(29)	193	-115.03%	

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses. Expenditures in non-instructional areas were decreased and directed into the instruction area where they will have a more direct impact on student education.

Governmental Activities

Revenues for governmental activities were \$2,527,408 and expenses were \$2,552,678 for the year ending June 30, 2012.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenses, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
Total Cost of Services			Net Cost of Services			
		Change			Change	
	2012	2011	2011-2012	2012	2011	2011-2012
Instruction	\$ 1,682	1,582	6.32%	1,140	1,087	4.88%
Support services	684	600	14.00%	684	585	16.92%
Other expenses	187	186	0.54%	114	103	10.68%
Totals	<u>\$ 2,553</u>	<u>2,368</u>	<u>7.81%</u>	<u>1,938</u>	<u>1,775</u>	<u>9.18%</u>

For the year ending June 30, 2012:

- The cost financed by users of the District's programs was \$257,250, an increase of over 42%.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$238,242.
- The net cost of governmental activities was financed with \$1,057,041 in property tax and \$622,366 in state foundation aid.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2012 were \$74,762 and expenses totaled \$78,496. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, Paton-Churdan Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$771,581 a seven percent decrease from last year's ending fund balances of \$826,994. The primary reason was a decrease in the Management Fund as part of containing property tax increases.

Governmental Fund Highlights

- The District's General Fund balance increased due to tuition revenue increases and cost containment measures.
- With the available PPEL and Capital Projects dollars the District was able to purchase a bus and make debt payments.

Proprietary Fund Highlights

The Nutrition Fund balance decreased due to increasing costs.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were \$7,692 less than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in state source revenues than originally anticipated.

Total expenditures were less than budgeted in all four functions. This was due in part to ongoing cost containment measures. The District did not exceed its General Fund unspent authorized budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested over \$1.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 1% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$77,898.

Figure A-6							
Capital Assets, net of Depreciation							
(Expressed in Thousands)							
	<u>Governmental</u>		<u>Business Type</u>		<u>Total</u>		<u>Total</u>
	<u>Activities</u>		<u>Activities</u>		<u>District</u>		<u>Change</u>
	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2011-2012</u>
Land	\$ 5	5	-	-	5	5	0.00%
Buildings	1,386	1,425	-	-	1,386	1,425	-2.74%
Furniture and equipment	190	130	8	4	198	134	47.76%
Totals	<u>\$ 1,581</u>	<u>1,560</u>	<u>8</u>	<u>4</u>	<u>1,589</u>	<u>1,564</u>	<u>1.60%</u>

Long-Term Debt

During fiscal year 2008, the District issued \$620,000 of revenue bonds and \$475,000 of capital loan notes for the installation of geothermal heating and cooling as well as some remodeling. The revenue bonds will be repaid with proceeds of the statewide sales, services and use tax. The capital loan notes will be repaid from the Physical Plant and Equipment levy approved by the voters of the District. \$45,000 of capital loan notes and \$40,000 of revenue bonds were paid during the year.

Figure A-7
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total District		Total Change
	June 30,		June 30,
	2012	2011	2011-2012
Revenue bonds	\$ 505	545	-7.34%
Capital loan notes	305	350	-12.86%
Early retirement	42	-	100.00%
Other post employment benefits	15	10	50.00%
Total	\$ 867	\$ 905	-4.20%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The sharing of programs and related cost savings along with allowable growth set by the state legislature will have a major effect on the District.
- Allowable growth of 2% or less is inadequate to maintain all of the District's educational programs at their current level. State aid cuts, particularly in midyear are causing the District to constantly evaluate its financial position.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jina Brincks, District Secretary, Paton-Churdan Community School District, 606 Adrian Street, Churdan, Iowa 50050.

Basic Financial Statements

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 854,254	12,568	866,822
Receivables:			
Property tax:			
Current year	9,704	-	9,704
Succeeding year	1,126,870	-	1,126,870
Income surtax - succeeding year	62,173	-	62,173
Due from other governments	22,508	-	22,508
Inventories	-	732	732
Capital assets, net of accumulated depreciation	1,581,292	8,275	1,589,567
Total assets	<u>3,656,801</u>	<u>21,575</u>	<u>3,678,376</u>
Liabilities			
Accounts payable	114,885	-	114,885
Accrued interest payable	14,329	-	14,329
Deferred revenue:			
Succeeding year property tax	1,126,870	-	1,126,870
Long-term liabilities:			
Portion due within one year:			
Early retirement	6,000	-	6,000
Capital loan notes	45,000	-	45,000
Revenue bonds	45,000	-	45,000
Portion due after one year:			
Early retirement	36,000	-	36,000
Capital loan notes	260,000	-	260,000
Revenue bonds	460,000	-	460,000
Net OPEB liability	15,188	-	15,188
Total liabilities	<u>2,123,272</u>	<u>-</u>	<u>2,123,272</u>
Net assets			
Invested in capital assets, net of related debt	771,292	8,275	779,567
Restricted for:			
Student Activity	10,598	-	10,598
Management levy	107,062	-	107,062
School infrastructure	9,505	-	9,505
Physical plant and equipment levy	1,519	-	1,519
Unrestricted	633,553	13,300	646,853
Total net assets	<u>\$ 1,533,529</u>	<u>21,575</u>	<u>1,555,104</u>

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction	\$ 1,681,530	257,250	284,380	(1,139,900)	-	(1,139,900)
Support services:						
Student services	10,920	-	-	(10,920)	-	(10,920)
Instructional staff services	40,102	-	-	(40,102)	-	(40,102)
Administration services	284,672	-	-	(284,672)	-	(284,672)
Operation and maintenance of plant services	176,708	-	82	(176,626)	-	(176,626)
Transportation services	171,361	-	-	(171,361)	-	(171,361)
	683,763	-	82	(683,681)	-	(683,681)
Other expenditures:						
AEA flowthrough	73,438	-	73,438	-	-	-
Interest on debt service	38,093	-	-	(38,093)	-	(38,093)
Depreciation (unallocated)*	75,854	-	-	(75,854)	-	(75,854)
	187,385	-	73,438	(113,947)	-	(113,947)
Total governmental activities	2,552,678	257,250	357,900	(1,937,528)	-	(1,937,528)

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2012

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities:					
Non-instructional programs:					
Nutrition services	78,496	49,915	-	(3,734)	(3,734)
Total	<u>\$ 2,631,174</u>	<u>407,815</u>	<u>(1,937,528)</u>	<u>(3,734)</u>	<u>(1,941,262)</u>
General Revenues:					
Property tax levied for:					
General purposes			\$ 942,551	-	942,551
Management			2,000	-	2,000
Capital outlay			112,490	-	112,490
Income surtax			49,962	-	49,962
Statewide sales, services and use tax			109,351	-	109,351
Unrestricted state grants			622,366	-	622,366
Unrestricted investment earnings			4,378	-	4,378
Other			69,160	-	69,160
Total general revenues			<u>1,912,258</u>	<u>-</u>	<u>1,912,258</u>
Change in net assets			(25,270)	(3,734)	(29,004)
Net assets beginning of year			<u>1,558,799</u>	<u>25,309</u>	<u>1,584,108</u>
Net assets end of year			<u>\$ 1,533,529</u>	<u>21,575</u>	<u>1,555,104</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2012

	Special Revenue		Capital Projects			Total
	General	Student Activity	Management Levy	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Cash and investments	\$ 734,072	10,598	107,062	392	2,130	854,254
Receivables:						
Property tax:						
Current year	8,672	-	-	-	1,032	9,704
Succeeding year	866,486	-	140,000	-	120,384	1,126,870
Income surtax - succeeding year	62,173	-	-	-	-	62,173
Due from other governments	13,395	-	-	9,113	-	22,508
Total assets	\$ 1,684,798	10,598	247,062	9,505	123,546	2,075,509

Assets

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2012

	Special Revenue		Capital Projects			Total
	General	Student Activity	Management Levy	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Liabilities and Fund Balance						
Liabilities:						
Accounts payable	\$ 113,242	-	-	-	1,643	114,885
Deferred revenue:						
Succeeding year property tax	866,486	-	140,000	-	120,384	1,126,870
Succeeding year income surtax	62,173	-	-	-	-	62,173
Total liabilities	<u>1,041,901</u>	<u>-</u>	<u>140,000</u>	<u>-</u>	<u>122,027</u>	<u>1,303,928</u>
Fund balances:						
Restricted for:						
Student activities	-	10,598	-	-	-	10,598
Management levy	-	-	107,062	-	-	107,062
School infrastructure	-	-	-	9,505	-	9,505
Physical plant and equipment levy	-	-	-	-	1,519	1,519
Unassigned	642,897	-	-	-	-	642,897
Total fund balance	<u>642,897</u>	<u>10,598</u>	<u>107,062</u>	<u>9,505</u>	<u>1,519</u>	<u>771,581</u>
Total liabilities and fund balances	<u>\$ 1,684,798</u>	<u>10,598</u>	<u>247,062</u>	<u>9,505</u>	<u>123,546</u>	<u>2,075,509</u>

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2012

Total fund balances of governmental funds (Exhibit C)	\$ 771,581
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Income surtax receivable at June 30, 2012 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	62,173
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,581,292
Accrued interest payable on long-term liabilities is not due and payable in the current period and , therefore, is not reported as a liability in the governmental funds.	(14,329)
Long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.	
Early retirement	(42,000)
Capital loan notes	(305,000)
Revenue bonds	(505,000)
Net OPEB liability	(15,188)
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,533,529</u></u>

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2012

	Special Revenue		Capital Projects			Total
	General	Student Activity	Management Levy	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Revenues:						
Local sources:						
Local tax	\$ 1,022,353	-	2,000	109,351	112,490	1,246,194
Tuition	257,250	-	-	-	-	257,250
Other	79,477	40,215	-	30	36	119,758
State sources	875,836	-	1	-	15	875,852
Federal sources	58,194	-	-	-	-	58,194
Total revenues	2,293,110	40,215	2,001	109,381	112,541	2,557,248
Expenditures:						
Current:						
Instruction	1,577,077	39,907	17,062	-	-	1,634,046
Support services:						
Student services	10,920	-	-	-	-	10,920
Instructional staff services	40,102	-	-	-	-	40,102
Administration services	266,051	-	18,621	-	-	284,672
Operation and maintenance of plant services	127,583	-	-	89,095	20,079	236,757
Transportation services	171,298	-	63	-	37,015	208,376
	615,954	-	18,684	89,095	57,094	780,827

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2012

	Special Revenue		Capital Projects			Total
	General	Student Activity	Management Levy	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Other expenditures:						
AEA flowthrough	73,438	-	-	-	-	73,438
Facilities acquisition and construction	-	-	-	-	-	-
Long-term debt:						
Principal	-	-	-	-	-	85,000
Interest and services	-	-	-	-	-	39,350
	73,438	-	-	-	-	124,350
						197,788
Total expenditures	2,266,469	39,907	35,746	89,095	57,094	2,612,661
Excess (deficiency) of revenues over (under) expenditures	26,641	308	(33,745)	20,286	55,447	(55,413)
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	124,350
Operating transfers out	-	-	-	(65,620)	(58,730)	(124,350)
	-	-	-	(65,620)	(58,730)	-
Net change in fund balances	26,641	308	(33,745)	(45,334)	(3,283)	(55,413)
Fund balances beginning of year	616,256	10,290	140,807	54,839	4,802	826,994
Fund balances end of year	\$ 642,897	10,598	107,062	9,505	1,519	771,581

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2012

Net change in fund balances - total governmental funds (Exhibit E) \$ (55,413)

**Amounts reported for governmental activities in the State of Activities
are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities, this represents the change from the prior fiscal year. (29,840)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	97,064
Depreciation expense	(75,854)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 85,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Other postemployment benefits	(5,484)
Early retirement benefits	(42,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,257

Change in net assets of governmental activities (Exhibit B) \$ (25,270)

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2012

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 12,568
Inventories	732
Capital assets, net of accumulated depreciation	<u>8,275</u>
Total assets	<u>21,575</u>
Net assets	
Invested in capital assets, net of related debt	8,275
Unrestricted	<u>13,300</u>
Total net assets	<u>\$ 21,575</u>

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2012

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ 24,847
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	26,713
Benefits	4,569
Services	139
Supplies	45,031
Depreciation	2,044
Total operating expenses	<u>78,496</u>
Operating (loss)	<u>(53,649)</u>
Non-operating revenues:	
State sources	817
Federal sources	49,071
Interest income	27
	<u>49,915</u>
Change in net assets	(3,734)
Net assets beginning of year	<u>25,309</u>
Net assets end of year	<u>\$ 21,575</u>

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2012

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 24,847
Cash payments to employees for services	(31,282)
Cash payments to suppliers for goods or services	<u>(41,751)</u>
Net cash (used by) operating activities	<u>(48,186)</u>
Cash flows from non-capital financing activities:	
State grants received	817
Federal grants received	<u>45,438</u>
Net cash provided by non-capital financing activities	<u>46,255</u>
Cash flows from capital financing activities:	
Acquisition of fixed assets	<u>(5,625)</u>
Cash flows from investing activities:	
Interest on investments	<u>27</u>
Net (decrease) in cash and cash equivalents	(7,529)
Cash and cash equivalents beginning of year	<u>20,097</u>
Cash and cash equivalents end of year	<u>\$ 12,568</u>
Reconciliation of operating (loss) to net cash (used by) operating activities:	
Operating (loss)	\$ (53,649)
Adjustments to reconcile operating (loss) to net cash (used by) operating activities:	
Depreciation	2,044
Commodities used	3,633
(Increase) in inventory	<u>(214)</u>
	<u>\$ (48,186)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received federal commodities valued at \$3,633.

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

Paton-Churdan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Paton and Churdan, Iowa, and agricultural area in Greene County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Paton-Churdan Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Paton-Churdan Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Greene County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund, Statewide Sales, Services and Use Tax is used to account for all resources used in the acquisition and construction of capital facilities.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Capital Projects Fund, Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2011.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Intangible assets	50,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Intangible assets	5-10 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2012.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2012.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,000	-	-	5,000
Capital assets being depreciated:				
Buildings	2,091,179	-	-	2,091,179
Furniture and Equipment	441,650	97,064	-	538,714
Total capital assets being depreciated	2,532,829	97,064	-	2,629,893
Less accumulated depreciation for:				
Buildings	665,796	38,692	-	704,488
Furniture and Equipment	311,951	37,162	-	349,113
Total accumulated depreciation	977,747	75,854	-	1,053,601
Total capital assets being depreciated, net	1,555,082	21,210	-	1,576,292
Governmental activities, capital assets, net	\$ 1,560,082	21,210	-	1,581,292
Business type activities:				
Furniture and equipment	\$ 27,402	5,625	-	33,027
Less accumulated depreciation	22,708	2,044	-	24,752
Business type activities capital assets, net	\$ 4,694	3,581	-	8,275
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 75,854
Business Type activities:				
Food service operations				\$ 2,044

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$88,701, \$74,301, and \$69,975 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$73,438 for year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance Beginning Year	Additions	Reductions	Balance End of Year	Due Within One Year
Early Retirement	\$ -	42,000	-	42,000	6,000
Revenue Bonds Payables	545,000	-	40,000	505,000	45,000
Capital Loan Notes	350,000	-	45,000	305,000	45,000
Net OPEB Liability	9,704	5,484	-	15,188	-
Total	<u>\$904,704</u>	<u>47,484</u>	<u>85,000</u>	<u>867,188</u>	<u>96,000</u>

Revenue Bonds Payable

Details of the District's June 30, 2012 revenue bond indebtedness are as follows:

Year Ending June 30,	Bond Issue of September 1, 2007			
	Rates	Interest	Principal	Total
2013	4.88%	\$ 23,546	45,000	68,546
2014	4.88	21,350	45,000	66,350
2015	4.88	19,032	50,000	69,032
2016	4.88	16,836	40,000	56,836
2017	4.88	14,884	40,000	54,884
2018	4.88	12,932	40,000	52,932
2019	4.88	10,858	45,000	55,858
2020	4.88	8,662	45,000	53,662
2021	4.88	6,344	50,000	56,344
2022	4.88	3,904	50,000	53,904
2023	4.88	1,342	55,000	56,342
Total		<u>\$139,690</u>	<u>505,000</u>	<u>644,690</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$620,000 bonds issued in September, 2007. The bonds were issued for the purpose of financing geothermal heating and cooling of the Churdan building. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2013. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 40 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$644,690. For the current year principal of \$40,000 and interest of \$25,620 were paid on revenue bonds and total statewide sales, services and use tax revenues were \$109,351.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- \$62,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District has not set aside the required reserve balance as of June 30, 2012.

Capital Loan Notes

In September, 2007 the District issued \$475,000 of Capital Loan Notes to be used for energy management projects throughout the District. Payments will be made from the Physical Plant and Equipment Levy.

Details of the Capital Loan Notes are as follows:

<u>Year Ending June 30,</u>	<u>Capital Loan Notes of September 1, 2007</u>			
	<u>Rates</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2013	3.75%	\$12,042	45,000	57,042
2014	3.90	10,356	50,000	60,356
2015	3.90	8,405	50,000	58,405
2016	4.00	6,455	50,000	56,455
2017	4.00	4,455	55,000	59,455
2018	4.10	<u>2,255</u>	<u>55,000</u>	<u>57,255</u>
Total		<u>\$43,978</u>	<u>305,000</u>	<u>348,978</u>

(7) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Interfund Transfers

The detail of Interfund transfers for the year ending June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects, Physical Plant and Equipment Levy	\$ 58,730
Debt Service	Capital Projects, Statewide Sales, Services and Use Tax	<u>65,620</u>
		<u>\$124,350</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 15 active members and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 5,648
Interest on net OPEB Obligation	243
Adjustment to annual required contribution	(407)
Annual OPEB Cost	5,484
Contributions made	-
Increase in net OPEB obligation	5,484
Net OPEB obligation beginning of year	9,704
Net OPEB obligation end of year	<u>\$15,188</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$4,767	0.00%	\$ 4,767
June 30, 2011	\$4,937	0.00%	\$ 9,704
June 30, 2012	\$5,484	0.00%	\$15,188

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$20,756, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$20,756. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,157,000 and the ratio of the UAAL to covered payroll was 1.8%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress presented as Required Supplementary Information, in the section following the Notes to Financial Statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(10) Early Retirement

In January, 2012 the Board of Education agreed to an early retirement arrangement with David Kuehl, K-12 principal. Mr. Kuehl will receive \$500 per month until he reaches the age of 65. The money may be applied towards insurance or taken in cash. Payment commenced on August 20, 2012.

Required Supplementary Information

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2012

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues:						
Local sources	\$ 1,623,202	24,874	1,648,076	1,495,274	1,495,274	152,802
State sources	875,852	817	876,669	1,074,428	1,074,428	(197,759)
Federal sources	58,194	49,071	107,265	70,000	70,000	37,265
Total revenues	<u>2,557,248</u>	<u>74,762</u>	<u>2,632,010</u>	<u>2,639,702</u>	<u>2,639,702</u>	<u>(7,692)</u>
Expenditures/Expenses:						
Instruction	1,634,046	-	1,634,046	2,219,699	2,219,699	585,653
Support services	780,827	-	780,827	782,100	782,100	1,273
Non-instructional programs	-	78,496	78,496	89,743	89,743	11,247
Other expenditures	197,788	-	197,788	306,798	306,798	109,010
Total expenditures/expenses	<u>2,612,661</u>	<u>78,496</u>	<u>2,691,157</u>	<u>3,398,340</u>	<u>3,398,340</u>	<u>707,183</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(55,413)	(3,734)	(59,147)	(758,638)	(758,638)	699,491
Other financing sources (uses)	-	-	-	(1,707)	(1,707)	1,707
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	(55,413)	(3,734)	(59,147)	(760,345)	(760,345)	701,198
Balance beginning of year	826,994	25,309	852,303	760,345	760,345	91,958
Balance end of year	<u>\$ 771,581</u>	<u>21,575</u>	<u>793,156</u>	<u>-</u>	<u>-</u>	<u>793,156</u>

See note to required supplementary information.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$0	\$18	\$18	0.0%	\$1,096	1.7%
2011	July 1, 2009	\$0	\$20	\$20	0.0%	\$1,225	1.6%
2012	July 1, 2009	\$0	\$21	\$21	0.0%	\$1,157	1.8%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Supplementary Information

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Athletics	\$ 699	12,656	17,696	(4,341)
Music Resale	11	579	700	(110)
Class of 2012	1,460	1,659	2,948	171
Class of 2011	51	51	51	51
Class of 2015	-	619	-	619
Class of 2014	1,032	1,900	419	2,513
Class of 2013	2,508	1,957	2,460	2,005
Miscellaneous	42	18	130	(70)
Musical	931	576	1,292	215
Student Council	-	102	1,072	(970)
Annual	(5,253)	6,846	3,117	(1,524)
Elementary	7,197	6,636	4,762	9,071
Student Pop Machine	-	3,999	2,854	1,145
Other Activities	62	-	-	62
Book Fair	514	2,082	2,068	528
National Honor Society	1,036	535	338	1,233
Total	\$ 10,290	40,215	39,907	10,598

See accompanying independent auditor's report.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Nine Years

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$1,246,194	1,262,732	1,173,701	1,132,120	1,034,427	1,021,032	1,027,895	960,813	1,033,655
Tuition	257,250	180,968	170,228	89,937	89,424	68,199	78,860	22,043	33,343
Other	119,758	104,020	117,972	140,293	84,271	84,650	95,769	131,394	200,580
State sources	875,852	877,764	679,111	939,314	1,040,548	993,080	921,121	881,704	691,218
Federal sources	58,194	137,047	211,703	60,443	62,001	68,460	131,633	112,346	72,884
Total	<u>\$2,557,248</u>	<u>2,562,531</u>	<u>2,352,715</u>	<u>2,362,107</u>	<u>2,310,671</u>	<u>2,235,421</u>	<u>2,255,278</u>	<u>2,108,300</u>	<u>2,031,680</u>
Expenditures:									
Instruction	\$1,634,046	1,576,576	1,512,377	1,416,919	1,359,558	1,326,015	1,372,508	1,368,998	1,217,499
Support services:									
Student services	10,920	10,334	8,550	9,992	10,364	9,748	9,717	1,074	7,594
Instructional staff	40,102	6,992	37,267	25,737	27,461	33,992	29,576	38,317	24,791
Administration	284,672	254,688	269,912	300,095	276,737	246,245	250,404	219,657	217,136
Operation and maintenance									
of plant	236,757	253,848	144,513	230,930	201,977	229,493	279,480	142,543	194,447
Transportation	208,376	190,864	128,049	120,972	104,391	160,031	215,464	63,274	149,910
Non-instructional programs:									
Food service operations	-	-	-	-	-	-	-	-	4,960
Other expenditures:									
Facilities acquisition	-	-	-	982,003	273,110	51,309	-	133,418	-
Debt service:									
Principal	85,000	85,000	75,000	40,000	5,155	2,579	2,579	2,579	2,579
Interest and services	39,350	42,922	46,799	44,799	-	-	-	-	-
AEA flowthrough	73,438	83,051	81,087	75,406	75,248	72,878	69,832	65,908	64,310
Total	<u>\$2,612,661</u>	<u>2,504,275</u>	<u>2,303,554</u>	<u>3,246,853</u>	<u>2,334,001</u>	<u>2,132,290</u>	<u>2,229,560</u>	<u>2,035,768</u>	<u>1,883,226</u>

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Financial Statement Preparation
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Paton-Churdan Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Paton-Churdan Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 13, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Paton-Churdan Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Paton-Churdan Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Paton-Churdan Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Paton-Churdan Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-12 and I-B-12 to be material weaknesses.

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Clarion, IA 50525

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Compliance and Other Matters

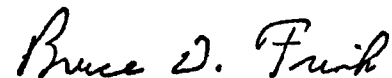
As part of obtaining reasonable assurance about whether Paton-Churdan Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings as well as item I-C-12 which we consider to be a material instance of non-compliance.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Paton-Churdan Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Paton-Churdan Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Paton-Churdan Community School District and other parties to whom Paton-Churdan Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Paton-Churdan Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 13, 2013

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

I-B-12 Auditor Drafting of the Financial Statements and Related Footnote Disclosures - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy; we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:
(continued):

I-C-12 Revenue Fund - The District has not established the reserve account required by the revenue bond resolution. In addition, the required monthly transfers from the revenue account to the sinking account were not made by the District.

Recommendation - The District should establish the reserve account in the amount required and make the monthly transfers to the sinking account as required by the bond resolutions.

Response - We will establish a reserve account and begin making transfers to a sinking account.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 Certified Budget - Expenditures for the year ended June 30, 2012, did not exceed the amended budget amounts in any of the four functions.

II-B-12 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-12 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-12 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

II-G-12 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-H-12 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

II-I-12 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-J-12 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

II-K-12 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

II-L-12 Revenue Fund - The District has not established the reserve account required by the revenue bond resolution. In addition, the required monthly transfers from the revenue account to the sinking account were not made by the District.

Recommendation - The District should establish the reserve account in the amount required and make the monthly transfers to the sinking account as required by the bond resolutions.

Response - We will establish a reserve account and begin making transfers to a sinking account.

Conclusion - Response accepted.

II-M-12 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 54,839
Revenues/transfers in:		
Sales tax revenue	\$109,351	
Other local revenues	<u>30</u>	109,381
Expenditures/transfers out:		
Equipment	89,095	
Transfers to other funds:		
Debt service fund	<u>65,620</u>	<u>154,715</u>
Ending balance		\$ <u>9,505</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.